
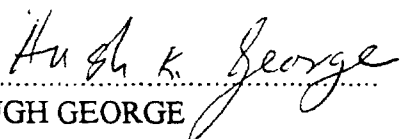


42. GT&T is directed to pay to the Consumers Advisory Bureau Limited twenty-five thousand dollars towards their costs in regard to these proceedings, within thirty days from the date of this Order.

Dated this 29<sup>th</sup> Day of October, 1997.

  
PAMADATH J. MENON, A.A.

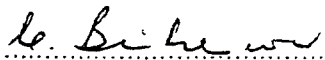
- Chairman

  
HUGH GEORGE

- Member

  
JOHN WILLEMS A.A.

- Member

  
CHANDRABALLI BISHESWAR

- Member

(Away from Georgetown)  
BADRIE PERSAUD

- Member

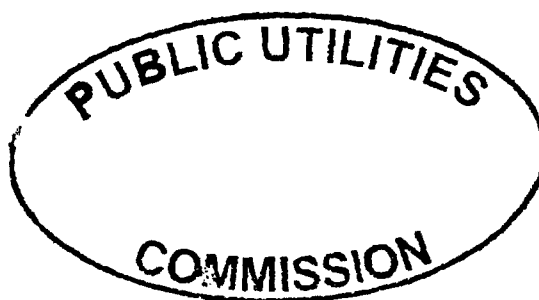


**APPROVED**

***GUYANA PUBLIC UTILITIES  
COMMISSION***

*Report of the PUC Staff  
Regarding Interim Rates*

*Tariff Notice Filed October 27, 1998*



*APRIL 1999*

PREFACE .....	ii
I. COMMISSION JURISDICTION .....	1
II. PROCEDURAL HISTORY .....	5
III. SUMMARY OF MAJOR FINDINGS AND CONCLUSIONS .....	7
IV. PROVISION OF TEST YEAR DATA .....	7
V. SUMMARY OF BASIS FOR INTERIM RATES .....	9
A. RATE BASE .....	9
1. Valuation of Assets .....	10
2. Test Year Update .....	11
3. Purchase Price in Excess of Book Value .....	12
4. Working Capital .....	12
5. Debt Service Reserve Fund .....	14
6. Depreciation .....	14
B. OPERATING INCOME .....	17
1. Revaluation .....	18
2. Test Year .....	19
3. Depreciation .....	19
4. Advisory Fees .....	21
5. Other Earnings issues .....	22
VI. RATE RECOMMENDATIONS .....	22
A. Local Fixed Charges .....	22
B. Local Measured Service .....	23
C. Outbound International .....	23
SCHEDULES .....	24
ANNEXURE A - FCC Depreciation .....	25

## **PREFACE**

This report addresses the Tariff filing of October 27, 1998 and prepares the basis for interim rates to be established under that filing. This report is the result of a collaborative effort by the staff of the Guyana PUC and Georgetown Consulting Group. Its analyses and conclusions are based on information from multiple sources. Factual information regarding its operations was obtained directly from GT&T through preliminary discovery. Additional discovery and analysis will be required before permanent rates may be set.

GT&T's reasoning or methodology for certain actions it took in preparing its filing is at times inconsistent with the rules of the United States Federal Communications Commission. GT&T is obliged to follow FCC precedent or rules in cases in which there has been no decision between it and the Guyana PUC as to how to resolve regulatory issues. We undertook to confirm our understanding of several issues that arose in this filing. We did so through independent research of statute, regulation and case law, and spoke with FCC staff on several occasions.

Our findings are open to discussion with the Commission, GT&T and the consumers' representatives before interim rates are set and we reserve the right for further investigation of issues raised in this report as well as other possible issues before permanent rates are set.

# **REPORT TO THE COMMISSIONERS ON THE ESTABLISHMENT OF INTERIM RATES FOR GT&T**

## **I. COMMISSION JURISDICTION**

On June 18, 1990, Atlantic TeleNetwork (ATN) and the Government of Guyana entered into a Purchase Agreement (Agreement) that transferred 80% ownership in Guyana Telephone and Telegraph Company Limited (GT&T) to ATN. Subsequent to the agreement, the Public Utilities Commission of Guyana (PUC) was established as the regulatory body required in the agreement. Specifically:

The government covenants and undertakes to establish an independent statutory authority (hereinafter referred to as the "Authority") to regulate the operations of companies or other persons engaged in providing telecommunication services and operating in Guyana and with a view to securing compliance with relevant laws of Guyana and to protecting the interests of persons making use of such services (hereinafter referred to as subscribers). § 6.7

Without prejudice to the generality of the foregoing, the Authority will be empowered to determine questions as to the reasonableness of rates charged by GT&T for services rendered by it and the decisions of the Authority will be binding on GT&T. § 6.8 (emphasis added).

The Agreement specifically highlighted the methodology and rate of return by which this Commission may regulate GT&T:

.....GT&T shall be entitled to a minimum rate of return of 15% on capital dedicated to public use. The revenue requirement shall be calculated on a rate of return methodology to be mutually agreed by the Government and ATN prior to the establishment of a Regulatory Body or any other agency charged with the responsibility of regulating the rate of return for GT&T. Unless and until such mutual agreement is reached between the Government and ATN, the revenue requirement shall be calculated on the basis of GT&T's entire property plant and equipment pursuant to a rate of return methodology consistent with the practices and procedures of the United States of America Federal Communication Commission. § 6.9b (emphasis added)

The PUC Act establishing the Commission was passed and later amended. Section 33 of the PUC Act 1990 as amended states specifically:

Where the Government and a public utility have entered into an agreement specifying –

- (a) the rate of return the public utility is entitled to in respect of the capital invested or dedicated to providing any service; or (emphasis added)
- (b) the principles on the basis of which such rate of return is to be determined, the Commission shall give effect to such agreement in determining the rate a public utility is entitled to demand or receive from any consumer or class of consumers or generally from all consumers in relation to the service.

Finally, in return for a minimum rate of return on assets dedicated to public use, GT&T was obligated by the purchase agreement to provide universal service. Specifically:

GT&T shall have the obligation to provide universal service. This means that the business and development plans of GT&T will be designed to provide as many residents of Guyana as possible with the benefit of telephone service. § 7.5

The PUCs responsibilities with respect to the regulation of GT&T are contained in Section 32 of the PUC Act of 1990 as amended which states specifically:

- (1) Every rate made, demanded or received by any public utility, from persons making use of the service provided by it, shall be fair and reasonable and in conformity with such rates as the Commission may from time to time prescribe.
- (2) In determining the rate a public utility may charge for any service provided by it, the Commission shall have regard to consumer interest and investor interest and to the rate of return obtained in other enterprises having commensurate risks, provision of safe and adequate service at reasonable costs, and to assuring the financial integrity of the enterprise. (emphasis added)

As established by the dealings between GT&T and the PUC, between 1991 and 1997, for filing for a change in tariffs, the Company's filing requirements are as follows:

- There should be an application in writing.
- There should be a purpose for the filing.
- The filing should state the law and relevant section or sections of that law under which the application is being made.
- The filing should state the effective date of the rate change.
- There should be a selected test year which could be historical, forecasted or a combination of historical and forecasted months, and should not exceed twelve months from the date the application is first received by the Commission.
- The assumptions used to support the forecasted data should be submitted to the Commission.
- The revenue deficiency should be calculated on an average rate base and capital structure and this submitted to the Commission.
- Schedules regarding the rates to be changed should be submitted.
- Schedules outlining the income and expenses and the rate base calculation for the test year should be submitted.
- An expansion plan supporting the rate change should be submitted.
- The working papers used to arrive at the filing should be submitted.

The establishment for instituting temporary rates are codified in Section 43 of the Public Utilities Act of 1990 (as amended):

1. The Commission may, in any proceedings involving the rate or rates charged or to be charged by a public utility, initiate either upon its own motion or upon complaint, if the Commission is of the opinion that the public interest so requires, by order, fix temporary rates to be charged by such public utility pending the final decision in such proceedings.
2. Any temporary rate or rates fixed under subsection (1) shall be effective from a date specified in the order until the final decision in the proceedings of the Commission referred to in subsection (1), unless modified or terminated sooner by the Commission.
3. When the Commission, upon examination of any annual or other report or of any papers, records, books or other documents or on the appraisal of property of any public utility are producing a return in excess of a fair value of the property of such public utility, used or useful in the service provided by it, the Commission may, by order, fix for a trial period not exceeding six months such temporary rate or rates to be observed by such public utility as, in the opinion of the Commission, will produce a fair rate of return upon such fair value, and the rate or rates so fixed shall be effective from a date specified in the order of the Commission and shall become permanent at the end of such trial period, unless modified or terminated at any time during such trial period by the Commission.

Finally, we would note that it is a well-established regulatory principle that the burden of proof is that of the utility and not of the PUC and its Staff.

## **II PROCEDURAL HISTORY**

On December 31, 1997 The Guyana Telephone and Telegraph Company Limited applied for a change of rates through Tariff Notice 1-97. These changes in rates were based upon GT&T's opinion that the rates currently in effect were insufficient to earn the 15% return stipulated in the Agreement. This return calculation was based entirely upon forecasted earnings and rate base for the calendar year 1998. The Company's December 31 filing was based upon a fully forecasted test year.

Information developed in discovery issued in that filing revealed that the Company's December 1997 filing presumed certain regulatory treatments of items such as return of and on excess costs over book value (goodwill), a rate allowance for unsubstantiated increases in depreciation rates, a return on working capital without appropriate studies, etc. The Commission by order dated January 6, 1998 suspended this filing.

After a hearing that took place on January 26<sup>th</sup> 1998, Order #1/98 was issued by the Commission establishing temporary rates for the services for which GT&T applied for rate changes. This Order was later amended by Order #2/98 reducing the temporary rates for telephone rentals and installations (both residential and business) and for local calls. When Orders #1/1998 and #2/1998 were issued and established temporary rates for GT&T, the Company was advised that the Commission would set permanent rates only after a thorough investigation of the Company's operations was completed. Before this process could be completed and permanent rates established

in that docket, the Commission was restrained by Order Nisi No.13-M dated January 20, 1999. Therefore, the rates currently effective are the interim rates from that filing.

On October 27, 1998, GT&T filed another Tariff Notice which it chose to call amendment to Tariff Notice 1/97. It is staff's opinion that this filing is not an amendment, but rather a totally separate filing (including separate test year) introducing new issues as well as the issues described above. Amendments to filings would normally include updating to reflect actual information regarding the test year or error corrections. This so-called "amended" filing is predicated on the following:

1. That there has been a 13% depreciation in the value of the Guyana dollar against the US dollar since the initial filing,
2. That AT&T has unilaterally decided to reduce the accounting rate agreed between itself and GT&T from June 1998, and
3. A 67% decrease in audiotext revenues.

The Commission by order dated November 09, 1998 suspended this filing and again by order dated February 19, 1999. The suspension letter indicates that the expiration of the suspension period will be three months effective from February 24th. It is Staff's recommendation that the PUC consider the remainder of this report as a basis for the setting of interim rates in this new docket. Permanent rates should be set only upon further investigation.

## **II SUMMARY OF MAJOR FINDINGS AND CONCLUSIONS**

We find:

1. "Amended Tariff Notice 1-97" should be found to be a new Tariff Notice.
2. The appropriate test year for the determination of GT&T's return and appropriate rates will be the new test year beginning October 1, 1998 and ending September 30, 1999 updated for actual information obtained during these proceedings.
3. That the interim rates set by the PUC by Orders 1/1998 and 2/1998 are excessive and should be reduced.
4. That rate stability should be a consideration of the PUC in the establishment of interim rates and permanent rates.

While Staff endeavored to obtain as much information as possible before the implementation of interim rates, we reserve the right to explore other issues that may effect the rates, planning and expansion of this system.

## **II. PROVISION OF TEST YEAR DATA**

At the time of the filing, all of the information used to determine revenue requirements was based upon forecasted results for the period October 1998 through September 1999. The Commission has issued two sets of discovery that would allow it to determine (among other items):

1. The impact of the devaluation of the Guyana dollar in relation to the US dollar on the operations of GT&T;
2. Ascertain the accounting rate which is being used at present between GT&T and the US and UK carriers;
3. Ascertain the impact of any reduction in the accounting rates on the inbound minutes for both regular telephone and audiotext calls;
4. The company's financial relationship and practices with its parent company;
5. The impact of audiotext net revenues upon the rates of GT&T; and
6. Other test year issues.

GT&T has responded to the first set of discovery and staff awaits the second set. We would note to the PUC that this report is filed later than would have been possible due to the continuous reluctance of GT&T to provide test year actual results, which is key to the determination of both interim and permanent rates. Repeated telephone calls from Thursday March 11, 1999 to Tuesday March 23, 1999 requesting the financial statements for December 1998 and January 1999 were made, and repeated promises by GT&T that they would be provided were broken.

On March 25, 1998, GT&T finally submitted the December 1998 unaudited results. Rather than providing the information required for this analysis and by PUC Order (monthly statements of income and balance sheets), GT&T provided annual amounts for income and December balance sheet which appear to have been restated to reflect a higher ratio of Guyana dollars to \$US dollars. This restatement of assets and income is a primary driver of GT&T's alleged revenue deficiency in this

filing and requires serious scrutiny before permanent rates are set. While Staff would have preferred more recent data upon which to set interim rates, we have relied upon the only consistent financial information provided for the test year, i.e. October and November 1998.

### **III. SUMMARY OF BASIS FOR INTERIM RATES**

As a result of the Staff preliminary investigation of GT&T's current interim rates, we recommend that the PUC reduce local service rates by a total of G\$484,843,000 as shown on Schedule 1, attached hereto. Our proposed rates are consistent with the Sales Agreement and the PUC's authority and will derive a 15% return on rate base using the best information that we currently have.

As a result of the Staff investigation of GT&T's current interim rates, our recommended reduction in rates would permit GT&T to earn a 15% rate of return on its assets used to benefit ratepayers, as shown on this same schedule.

#### **A. RATE BASE**

For regulatory purposes, rate base upon which a return is granted is comprised of investment in plant and other items required to provide regulated services. Section 6.9 of the Agreement between the Government of Guyana and Atlantic TeleNetwork, Inc. established GT&T's rate of return entitlement. Nowhere is it stated that GT&T is entitled to "a minimum rate of return of 15% on its capital." For the purpose of ratemaking, the distinction between "capital" and "capital

dedicated to public use" is invaluable and must be made. Every attempt to satisfy the terms of the Agreement has been made in this report with the understanding that the purpose of this report is for interim rates only. The rate base would therefore be calculated on the capital employed to provide the service that is now being enjoyed by the public of Guyana. We show GT&T's position in this rate filing as well as adjustments thereto to show the rate base upon which we recommend the establishment of interim rates.

## **1. Valuation of Assets**

The Company estimated its investment for public use (rate base) for the test year to be G\$17.7 billion. The large increase in rate base from prior years is from GT&T's decision to restate its books to increase net plant by a ratio of 160:142 and request a return thereon. This adjustment has ratemaking as well as legal questions and for the purposes of setting interim rates, we have chosen to ignore GT&T's proforma adjustment to rate base. On Schedule 2, page 2, we show the value of the GT&T's forecasted rate base at both 142:1 and 160:1 ratios of Guyana dollars to US dollars. For the purposes of this report, we have used GT&T's workpapers for the purposes of establishing a rate base at 142:1, but reserve the right to further analysis of those workpapers.

Some balance sheet items which GT&T incorrectly refers to as working capital components were restated to 142:1 by simple arithmetic by Staff (as opposed to the very detailed calculations of GT&T). Staff requested that GT&T provide the information and workpapers to restate its case to

142:1 valuation. GT&T did not provide these workpapers but merely stated that the information provided would be sufficient to calculate the proforma adjustment. Assuming that this statement were true, GT&T also was requested to provide the information in electronic format in order to expedite the process should the Company inadequately respond to that request. GT&T chose to ignore this request, as well.

Our preliminary review of what GT&T has provided reveals that the details that were supplied do not entirely tie to the summary of assets and income that were used by GT&T to establish its alleged deficiency in the test year. Staff will continue to urge GT&T to be cooperative and to review its own workpapers. At this point, it appears that these errors are relatively small and/or irrelevant because of Staff's position regarding regulatory treatment of certain items and the continued investigation of the Company before the setting of final rates.

## **2. Test Year Update**

For the purposes of this report, we have accepted GT&T's proposed test year. Since the test year developed by the Company was entirely based upon projections and assumptions that have not been tested, it is the intent of Staff to include as much actual data into the test year to assure fairness to all parties involved. At this point, the only actual rate base information that we can apply is information for the first two months of the test year, as shown on Schedule 2, page 3. For the purpose of establishing interim rates, we have used the average of the amounts provided by GT&T on a consistent basis as the starting point of our recommended rate base.

### **3. Purchase Price in Excess of Book Value**

As shown on Schedule 2, page 1, Column D, we removed the unamortized balance of franchise rights on which GT&T sought a return. GT&T included in the rate base the excess cost (goodwill) that ATN paid to originally acquire GT&T. This is not one of the items of rate base permitted in the practice and procedures of the FCC. A listing of all permitted rate base items is contained in 47 CFR 65.820, from which goodwill is excluded. Also, goodwill is required to be amortized to Account 7360 (Other Nonoperating Income), a below-the-line item, indicating that the FCC views this item as the responsibility of the shareholder not the ratepayer.

We have removed the test year average unamortized balance of the excess purchase price over book value from rate base. Not only is this consistent with the FCC's rules for determining rate base as stated in Part 65 of the FCC's rules regarding rate base items,<sup>1</sup> but also with prior Guyana PUC decisions. The adjustment removes an asset from rate base from which no benefit to ratepayers occurs.

### **4. Working Capital**

GT&T's determination of working capital is faulty. The Company has not used a practice consistent with the practices and procedures of the United States Federal Communications Commission (FCC) as the Company is required to do under Article 6.9B of the Agreement. FCC

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<sup>1</sup>47 CFR 65.820.

rules, contained in 47 CFR 65.820, provide three options for a Class B company such as GT&T. Class B companies may produce for the FCC's review a full lead-lag study, follow a formula specifying the computations to be made to arrive at a cash working capital allowance, or it may use an amount equal to 15 days of its cash operating expenses including interest. In the absence of other information, we chose the latter in our determination of rate base.

Our revenue requirement recommendation is based upon our belief that GT&T's computation of a working capital allowance is inconsistent with the rules of the FCC as stated in 47 CFR and is seriously flawed for use as a test year amount. We have computed the appropriate amount of working capital consistent with the FCC's rules<sup>2</sup> and show this computation on Schedule 2, page 4 and the proper allowance on Schedule 2, page 1, Column E.

For Class B Companies at the FCC, the Company may also provide a lag study, a modified formula approach to a lag study or simplified approach without a lag study. GT&T has provided none of these. For purpose of this proceeding we have computed working capital consistent with the FCC 15 day formula for Class B telephone companies.<sup>3</sup> The FCC Order indicates the quantification of this allowance:

A Class B Carrier will be permitted to include in the rate base a standard cash working capital allowance equal to 15 days of its ~~cash~~ operating expenses... We revise the rule to specifically mention that interest should be included in cash expenses and

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<sup>2</sup>FCC Order on Reconsideration, CC Docket 86-497.

<sup>3</sup>Order on Reconsideration, CC Docket 86-497, ¶ 15.

that both depreciation and amortization should be deductions from total operating expenses to determine cash operating expenses....

As shown on Schedule 2, page 1 we have removed all receivables, payables, etc. and have replaced the appropriate working capital allowance computed on Schedule 2, page 4.

## **5. Debt Service Reserve Fund**

GT&T is requesting a return on the reserve fund requirement by Northern Telecom upon which GT&T shareholders are already receiving a return. We have removed this item from rate base. The balance of the debt service reserve account is a requirement by Northern Telecom. The FCC's rules for determining rate base do not provide for this item. Moreover, interest is earned on the balances throughout the year. GT&T uses the accounting system (Part 32) as required by the FCC. In that system, interest income is charged to non-operating income. GT&T did not use these earnings to offset its cost of service in this filing, which results in shareholders of GT&T receiving this benefit of additional income. Therefore, it is inappropriate that the ratepayer be required to pay an additional 15% on this balance, since the shareholder benefits from interest income and this debt service reserve funds are not a permitted rate base item at the FCC. According to the 1997 audited financial results, GT&T is required to have a balance of G\$553,800,000 in reserve and that is the amount by which we have adjusted GT&T's rate base.

## 6. Depreciation

GT&T unilaterally decided to adjust the rates of depreciation being applied to its depreciable assets. This was done without PUC's approval and was alleged by Company management to be based upon the FCC or some other standard depreciation rates. This decision has the effect of increasing test year expense above that which would have occurred if the 1997 depreciation rates were applied to plant. GT&T alleges that the Purchase Agreement permits it to do this, since it "is applying FCC standards and does not require PUC approval."<sup>4</sup>

An unilateral change in depreciation rates (represcription) is neither the norm before the FCC nor United States state-level regulatory commissions, since depreciation expense affects rates and return. In the case of the FCC, Class A telephone companies (with annual revenues over approximately US\$108 million) are required to file a petition for a change in depreciation rates which includes detailed studies supporting the depreciation rates.<sup>5</sup> These Class A companies can only change their depreciation rates upon FCC approval. In addition, price-cap Local Exchange Companies (LECs) are permitted to set depreciation rates within ranges established for some plant accounts.<sup>6</sup> Neither procedure was followed by GT&T in this instance.

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<sup>4</sup>Response to Item 28, Rate Filing 1-95.

<sup>5</sup>47 CFR 43.43

<sup>6</sup>Second Report & Order, CC Docket No. 92-296 (1994).

If GT&T were under the regulatory jurisdiction of the FCC, it would not be classified as a Class A telephone company but rather Class B. Class B telephone companies (with annual revenues below \$US108 million) do not have any particular requirement from the FCC with regard to depreciation represcription, but it is the local regulatory authority that sets and determines such rates. We are not aware of any instances in which depreciation rates are changed by a telephone utility without the express written approval of a regulatory agency.

GT&T provided workpapers last year from the above-mentioned FCC docket at which ranges of acceptable depreciation rates were determined by that Commission. The docket was established by the FCC specifically to "establish ranges for the underlying factors that are used to compute depreciation rates."<sup>7</sup> We have compared the average rates from this FCC docket with the 1998 rates currently used by GT&T. We found that the rates used by GT&T are not the rates recommended by the FCC as a result of the procedure reference above.

We have also compared GT&T's depreciation rates (both previous and current) with other rates that we could obtain. We have compared these rates with Southern Bell Telephone Company (nine regional companies), the HAI Model<sup>TM</sup> default rates<sup>8</sup> and those proposed by AT&T and MCI in numerous federal and state regulatory proceedings at which GCG appeared. As can be seen in Annexure A, the GT&T rates also vary from the other rates we were able to obtain. Neither a clear

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<sup>7</sup>CC Docket No. 92-296 ¶ 1.

<sup>8</sup>The Hatfield Model is a software program which contains numerous variables, including depreciation rates, that are used to calculate costs for various services provided by the LEC.

basis nor relevant test year data has been provided at this point upon which GT&T based its change in depreciation rates.

Given that this is the first time the issue of depreciation has been raised before the Commission, it may be appropriate to use FCC rates as a surrogate for a complete study to avoid a costly and lengthy hearing on this issue. For that purpose, we have applied the average FCC rates to the average budgeted 1998 plant balances for GT&T for those categories of plant that can be easily identified and for which ranges were established by the FCC for 22 of 33 plant accounts.<sup>9</sup> Our recommendation has the effect of increasing expense above the 1997 levels, but might be somewhat lower than GT&T is currently recording in the test year. We have sent discovery to GT&T to elicit more precise test year information. Staff will update this adjustment for permanent rates once we obtain the requisite information from GT&T on test year amounts. GT&T by restating the embedded investment to above book value amount further exacerbates the affect of its unilateral decision to represcribe.

If the PUC decides that the change in depreciation rates is inappropriate at this time and requires written PUC approval, then we would recommend a larger reduction in interim rates and permanent rates. The net effect of using the average depreciation rates on rate base is relatively small (as shown in Column G of Schedule 2, page 1), but a much larger adjustment to income is required. The details of our calculations are provide on Schedule 3, page 3.

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<sup>9</sup>CC Docket No. 92-296 (1994).

## **B. OPERATING INCOME**

The Company's projection of income is based upon the test year estimation. In developing much of the operating income details, GT&T used actual amounts through September 1998, annualized the amounts, used an escalation factor of 15% for expenses and then adjusted revenues and expense to reflect the lower value of the Guyana dollar to the US dollar. GT&T expends and receives dollars denominated in both currencies on a routine basis. On a current basis, GT&T's operating income statement should automatically reflect the current translation of income to Guyana dollars, as would be appropriate.

### **1. Revaluation**

As discussed earlier, GT&T's workpapers indicate that GT&T translated the September 1998 annualized results and then valued those results based upon the valuation of the US dollars in those accounts where the valuation would be applied. For instance, for local revenues GT&T annualized the 1998 (September) amount and then did not apply a valuation factor to the result, since these revenues are denominated in Guyanese dollars. For some revenues which GT&T receives in US\$ e.g. inbound international, GT&T translated the annualized amounts into Guyanese dollars. The net result of this exercise derives the G\$11.5 billion of revenues for the test year.<sup>10</sup>

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<sup>10</sup> Staff would note that it was unable to fully tie out the workpapers, but differences were small.

The expense forecast is also based upon an annualization of September 1998 results (adjusted for inflation). Since GT&T expends money in both denominations the detailed workpapers are complex and very detailed. The net result of this exercise is reflected in columns A through C on Staff Schedule 3, page 1. In calculating staff's income at current rates, we have used the test year (however denominated) as provided by GT&T, but show the forecasted currency translation as a point of interest to the PUC.

## **2. Test Year**

We have updated the forecasted test year of GT&T to include the results of operations through November 1998, as shown on page 2 of Schedule 3. We then annualized the amounts and compared those to GT&T's forecast (@142:1) and established a test year variance. We would note that we could have compared this annualization to the 160:1 forecasted showing a different variance but the net results of our final analysis would be the same. Again we express our disappointment with GT&T about its provision of more timely data. In the setting of permanent rates, we will use the most recent information supplied by GT&T.

There are several test year issues that we have only begun to investigate. Among these would be the audiotext revenues and margin, affiliate transfers, normalizing expenses, reviewing GT&T assumptions regarding usage and rates for international inbound services, etc.

### 3. Depreciation

GT&T on its own volition and without PUC approval increased its test year depreciation rates above levels for prior years alleging permission for such an increase is implied in Article 6.9B of the Agreement. To restate: FCC rules regarding the production of depreciation reports for Class A companies are found in 47 CFR 43.43. Alternatively, the FCC established ranges of rates for specific plant accounts in CC Docket 92-296, which are applicable to price cap LECs. Class B companies, such as GT&T, have no specific procedures which are applicable to them, leaving the requirements for a change in depreciation rates to the discretion of state jurisdictions. The Guyana PUC may elect either of these two FCC-prescribed methods, or devise their own requirements under their general authority to set GT&T's rates for service.

For the purpose of setting interim rates, we calculated the level of test year depreciation if the FCC standards (average) are employed using 1998 plant balances. We show the calculation of earnings and rate base adjustments related to this recommendation on Schedule 3, page 3. In the instance of Customer Premise Equipment (CPE), the FCC does not have a depreciation rate since CPE has long been deregulated in the United States. For the purpose of our estimate, we have accepted GT&T's proposed increase from 10% to 14.3%.

For several of the plant accounts we were unable to match the GT&T plant classification to the FCC recommended depreciation rate, as it appears that GT&T presents its plant balances somewhat differently than would be provided to the FCC. For those classifications of plant, we used

an average rate which we believe forms the basis for a reasonable estimate of annual depreciation expense. The result of our assumptions is an increase in test year depreciation expense above the levels that would occur had 1997 rates been used for the test year, but a decrease in depreciation expense from that proposed by GT&T. We have calculated the total revenue requirement based upon this revision of depreciation rates.

With the establishment of permanent rates, the PUC's order should require GT&T to apply these rates to depreciable plant until further changes are approved, at which time the Company should approach the Commission with its request and bases thereof. The PUC should make clear that a written order is required before any further changes may be recorded. The test year spreads plant balances over two fiscal years. We have requested that GT&T provide the required details for making this adjustments for making permanent rates.

#### 4. Advisory Fees

GT&T continues to record and pay advisory fees to ATN without record of services, invoices and without arms length dealings. Since this is a transaction with an affiliate, the inclusion of this expense for ratemaking purposes is not consistent with FCC practice and procedures. Affiliate transactions in which a carrier receives substantially all of a service from an affiliate which are not also provided to nonaffiliated entities are to be recorded *at cost*, as per 47 CFR 32.27(d). Further, long-standing state-level precedent requires that affiliate transactions be subjected to extremely close